

**REPORT OF THE AUDIT OF THE  
RUSSELL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE RUSSELL COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

The Auditor of Public Accounts has completed the Russell County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued a qualified opinion on the financial statements taken as a whole.

#### **Financial Condition:**

Cash balances increased by \$99,801 from the beginning of the year, resulting in a cash surplus of \$803,561 as of June 30, 2003.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2003, was \$115,000. Future collections of \$28,758 are needed in fiscal year ending June 30, 2004 to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$342,739 as of June 30, 2003. Future principal and interest payments of \$386,813 are needed to meet these obligations.

#### **Report Comment:**

- Receipts And Disbursements Should Be Accurately Posted

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronnie E. McFall, Russell County Judge/Executive

Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Russell County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Russell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Russell County Tourism Commission. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Russell County Tourism Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Russell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements of the Russell County Tourism Commission are presented according to accounting principles generally accepted in the United States of America. This basis of accounting is inconsistent with the basis of accounting used in the financial statements of the primary government of Russell County, Kentucky. The financial statements of the Russell County Tourism Commission contain certain accruals not required by the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Ronnie E. McFall, Russell County Judge/Executive  
Members of the Russell County Fiscal Court

In our opinion, except for the effect, if any, on the financial statements of the two different bases of accounting discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the primary government of Russell County, Kentucky, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2004, on our consideration of Russell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Russell County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Receipts And Disbursements Should Be Accurately Posted

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 27, 2004



RUSSELL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Ronnie E. McFall	County Judge/Executive
Herlon R. Lawless	Magistrate
Mickey Garner	Magistrate
Bradley A. Redmon	Magistrate
Larry W. Holt	Magistrate
Ronald Johnson	Magistrate

**Other Elected Officials:**

Howard Kent Cooper	County Attorney
Darrell L. McQueary	Jailer
Brigette Popplewell	County Clerk
Tony Kerr	Circuit Court Clerk
Larry L. Bennett	Sheriff
Rodney G. Owens	Property Valuation Administrator
Larry D. Skaggs	Coroner

**Appointed Personnel:**

Barbara Wilson	County Treasurer
Glenna Helm	Finance Officer
Kathy Johnson	Tax Collector
Ronnie McGaha	Road Supervisor
Sheila McGaha	911 Administrator

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

RUSSELL COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type			Totals (Memorandum Only) Primary Government
	General	Special Revenue	Debt Service	
<u>Assets and Other Resources</u>				
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ 683,102	\$ 27,081	\$ 93,717	\$ 803,900
Accounts Receivable				
Due from Russell Fiscal Court				
<u>Property, Plant and Equipment</u>				
Building and improvements				
Equipment and furniture				
Land				
Total Assets	<u>\$ 683,102</u>	<u>\$ 27,081</u>	<u>\$ 93,717</u>	<u>\$ 803,900</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Retirement of General Long-Term Debt	\$	\$	\$	\$
Capital Lease Agreements (Note 5)	342,739			342,739
Bond Payments (Note 5)			21,283	21,283
Total Other Resources	<u>\$ 342,739</u>	<u>\$ 0</u>	<u>\$ 21,283</u>	<u>\$ 364,022</u>
Total Assets and Other Resources	<u>\$ 1,025,841</u>	<u>\$ 27,081</u>	<u>\$ 115,000</u>	<u>\$ 1,167,922</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2003  
 (Continued)

Component Unit	Totals (Memorandum Only) Reporting Entity
<u>Tourism Commission</u>	
\$ 36,469	\$ 840,369
7,342	7,342
1,000	1,000
204,248	204,248
47,238	47,238
<u>30,240</u>	<u>30,240</u>
\$ 326,537	\$ 1,130,437
\$ 117,940	\$ 117,940
	342,739
	<u>21,283</u>
\$ 117,940	\$ 481,962
<u>\$ 444,477</u>	<u>\$ 1,612,399</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

	Governmental Fund Type			Totals (Memorandum Only) Primary Government
	General	Special Revenue	Debt Service	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Accrued Liabilities	\$	\$	\$	\$
Capital Lease Obligations- Principal Payments (Note 5)	342,739			342,739
Bonds:				
Series 1992			115,000	115,000
Notes Payable				
Payroll Liabilities	339			339
Total Liabilities	\$ 343,078	\$ 0	\$ 115,000	\$ 458,078
<u>Equity</u>				
Investment in general fixed assets	\$	\$	\$	\$
Fund Balances:				
Reserved	30,000	27,081		57,081
Unreserved	652,763			652,763
Total Equity	\$ 682,763	\$ 27,081	\$ 0	\$ 709,844
Total Liabilities and Equity	\$ 1,025,841	\$ 27,081	\$ 115,000	\$ 1,167,922

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Component Unit	Totals (Memorandum Only) Reporting Entity
<u>Tourism Commission</u>	
\$ 1,981	\$ 1,981
	342,739
	115,000
117,940	117,940
	339
<u>\$ 119,921</u>	<u>\$ 577,999</u>
\$ 281,726	\$ 281,726
	57,081
<u>42,830</u>	<u>695,593</u>
<u>\$ 324,556</u>	<u>\$ 1,034,400</u>
<u>\$ 444,477</u>	<u>\$ 1,612,399</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

RUSSELL COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,753,873	\$ 1,286,419	\$ 87,968	\$ 10,557
Tourism Commission Revenues				
Other Financing Sources:				
Transfers In	86,471	100,000	325,000	
Lease-Purchase Proceeds	85,170			
Kentucky Advance Revenue Program	506,800	123,700		
Total Cash Receipts	<u>\$ 2,432,314</u>	<u>\$ 1,510,119</u>	<u>\$ 412,968</u>	<u>\$ 10,557</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,461,211	\$ 1,088,951	\$ 442,453	\$ 11,015
Other Financing Uses:				
Schedule of Airport Board Expenditures				
Tourism Commission Expenditures				
Transfers Out	429,000	152,521		5,000
Bonds:				
Principal Paid				
Interest Paid				
Capital Lease Agreements:				
Principal Paid	6,676	39,000		
Kentucky Advance Revenue Program				
Principal Paid	506,800	123,700		
Interest Paid	4,304	1,050		
Total Cash Disbursements	<u>\$ 2,407,991</u>	<u>\$ 1,405,222</u>	<u>\$ 442,453</u>	<u>\$ 16,015</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 24,323	\$ 104,897	\$ (29,485)	\$ (5,458)
Cash Balance - July 1, 2002	<u>398,433</u>	<u>132,154</u>	<u>29,909</u>	<u>27,990</u>
Cash Balance - June 30, 2003	<u><u>\$ 422,756</u></u>	<u><u>\$ 237,051</u></u>	<u><u>\$ 424</u></u>	<u><u>\$ 22,532</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Special Revenue Fund Type			Debt Service Fund Type		Component Unit	Totals (Memorandum Only) Reporting Entity
Community Development Block Grant Fund	Tourism Fund	Airport Board Fund	Public Properties Corporation Fund	Totals (Memorandum Only)	Tourism Commission	
\$ 260,000	\$ 111,931	\$ 13,701	\$ 704	\$ 3,525,153	\$ 156,681	\$ 3,525,153 156,681
		9,000	66,050	586,521 85,170 630,500		586,521 85,170 630,500
<u>\$ 260,000</u>	<u>\$ 111,931</u>	<u>\$ 22,701</u>	<u>\$ 66,754</u>	<u>\$ 4,827,344</u>	<u>\$ 156,681</u>	<u>\$ 4,984,025</u>
\$ 260,000	\$ 111,835	\$	\$	\$ 3,375,465		\$ 3,375,465
		16,890		16,890		16,890
					151,546	151,546
				586,521		586,521
			55,000	55,000		55,000
			11,050	11,050		11,050
				45,676		45,676
				630,500 5,354		630,500 5,354
<u>\$ 260,000</u>	<u>\$ 111,835</u>	<u>\$ 16,890</u>	<u>\$ 66,050</u>	<u>\$ 4,726,456</u>	<u>\$ 151,546</u>	<u>\$ 4,878,002</u>
\$ 0	\$ 96	\$ 5,811	\$ 704	\$ 100,888	\$ 5,135	\$ 106,023
	11,227	9,947	93,013	702,673	37,695	740,368
<u>\$ 0</u>	<u>\$ 11,323</u>	<u>\$ 15,758</u>	<u>\$ 93,717</u>	<u>\$ 803,561</u>	<u>\$ 42,830</u>	<u>\$ 846,391</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCE - PROPRIETARY FUND TYPE



RUSSELL COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCE - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Jail Canteen Receipts	<u>                    </u>
Total Cash Receipts	<u>\$          0</u>
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	<u>\$      1,087</u>
Total Cash Disbursements	<u>\$      1,087</u>
Excess of Cash Disbursements Over Cash Receipts	\$     (1,087)
Cash Balance - July 1, 2002	<u>          1,087</u>
Cash Balance - June 30, 2003	<u><u>          0</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE



RUSSELL COUNTY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Payments to Suppliers	<u>\$         (1,087)</u>
Net Cash Used By Operating Activities	<u>\$         (1,087)</u>
Net Decrease in Cash	\$         (1,087)
Cash and Cash Equivalents - July 1, 2002	<u>          1,087</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$                  0</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Russell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Russell County Tourist Commission, Russell County Airport Board, and Russell County Public Properties Corporation as part of the reporting entity.

Russell County Tourist Commission

On December 12, 1981, Russell County Fiscal Court (Fiscal Court) established the Russell County Tourist Commission (Commission) pursuant to KRS 91A.350(2) for the purpose to promote the recreation, tourist, and convention activity in Russell County. The Commission is composed of seven members appointed by the Russell County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On December 12, 1981 the Fiscal Court enacted an ordinance imposing a transient room tax. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room or rooms charged and collected." The Fiscal Court is to issue monthly checks to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court. Therefore, management has included this entity as a component unit, and the entity financial activity is discretely presented in the financial statements for the year ended December 31, 2002. A complete copy of the audit report may be obtained from the Commission.

Russell County Airport Board

On November 5, 1986, Supreme Court of Kentucky ruled that the Russell County Airport Board (Airport Board) was not a legally formed entity under KRS 183.132, and therefore was subordinate to Russell County Fiscal Court (Fiscal Court). Therefore, Fiscal Court is financially accountable for the Airport Board; legally entitled to the Airport Board's resources as well as legally obligated for the Airport Board's debt. Financial information for the Airport Board is blended within Russell County's financial statements.

RUSSELL COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Russell County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Russell County's financial statements.

Additional - Russell County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Russell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Russell County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Russell County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Russell County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund, Tourism Fund, and Airport Board Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Russell County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Russell County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. In addition, a formal budget is not adopted for the Russell County Airport Board Fund and the Russell County Jail Canteen Fund.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Russell County Fiscal Court:

- Russell County Ambulance Service District
- Russell County Hospital

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of Russell County Fiscal Court: 911 Dispatch Consortium (Consortium). The Consortium is composed of Fiscal Court, City of Jamestown, City of Russell Springs, and Russell County Emergency Medical Services District. Each member of the consortium accepts "responsibility equally for any and all operating expenses and emergency needs approved by the management team, and agree to pay for such costs in equal proportion of one-fourth each."

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deferred Compensation

On May 9, 1994 the Russell County Fiscal Court voted to allow interested employees to participate in deferred compensation plans administered by The National Association of Counties. These deferred compensation plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation of employees in the deferred compensation plans is voluntary.



RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

Note 5. Long-Term Debt

A. Public Properties Corporation Bonds

On October 1, 1992, the Public Properties Corporation issued Public Project Revenue Bond Series 1992 in the amount of \$585,000; the proceeds of which were used to finance the county's road paving project. Principal and interest are due annually in April. The last bonds mature in April 2004. Bonds outstanding as of June 30, 2003 were \$115,000. Future bond principal and interest payments are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 7,475</u>	<u>\$ 115,000</u>

B. Capital Lease Obligation - Road-Paving

On May 12, 1998, Russell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$400,000. The funds were used for a road-paving project. The county was in substantial compliance with the lease agreement as of June 30, 2003. The lease matures on January 20, 2008, and interest is to be paid monthly at a 4.50% interest rate. Principal is to be paid on January 20 annually. The principal balance outstanding as of June 30, 2003, was \$196,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 9,895	\$ 41,000
2005	7,605	42,000
2006	5,236	44,000
2007	2,756	46,000
2008	<u>742</u>	<u>23,000</u>
Totals	<u>\$ 26,234</u>	<u>\$ 196,000</u>

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Long-Term Debt

C. Capital Lease Obligation - Fire Truck

On April 26, 2001, Russell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$75,000. The funds were used to purchase a fire truck. The county was in substantial compliance with the lease agreement as of June 30, 2003. The lease matures on May 20, 2011 and interest is to be paid monthly at a 3.25% interest rate. Principal and interest are to be paid on the 20<sup>th</sup> of each month. The principal balance outstanding as of June 30, 2003, was \$61,569. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,297	\$ 6,896
2005	2,022	7,123
2006	1,738	7,358
2007	1,444	7,601
2008	1,141	7,852
2009-2011	1,499	24,739
Totals	<u>\$ 10,141</u>	<u>\$ 61,569</u>

D. Capital Lease Obligation - Sheriff Vehicles

On March 19, 2003, Russell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$85,170. The funds were used to purchase sheriff vehicles. The county was in substantial compliance with the lease agreement as of June 30, 2003. The lease matures on January 20, 2008 and interest is to be paid monthly based upon a 2.65% interest rate. Principal is due yearly on January 20 and interest is due to be paid on the 20<sup>th</sup> of each month. The principal balance outstanding as of June 30, 2003, was \$85,170. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,693	\$ 16,216
2005	2,131	16,615
2006	1,554	17,024
2007	963	17,443
2008	358	17,872
Totals	<u>\$ 7,699</u>	<u>\$ 85,170</u>

RUSSELL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 6. Material Grants

A. Lake Cumberland Children's Advocacy Center Grant

Russell County Fiscal Court was awarded a grant in the amount of \$260,000 from the Cabinet for Families and Children, Commonwealth of Kentucky, to assist in the purchase of property for the Lake Cumberland Children's Advocacy Center. During fiscal year 2003, the Russell County Fiscal Court received funds of \$260,000, which were passed through to the Advocacy Center. The unexpended balance as of June 30, 2003, was \$0.

B. U. S. Community Adjustment and Investment Program

The United States Government created the U. S. Community Adjustment and Investment Program (USCAIP) for communities that need assistance adjusting to trade impacts of the North American Free Trade Agreement (NAFTA). Russell County Fiscal Court (Fiscal Court) was awarded this grant in the amount of \$450,000 from North American Development Bank (NADBank). NADBank is an international public financial institution established for the purpose of assisting the government with the development and implementation of the program. The Court entered into an agreement with the Russell County Industrial Development Authority (RCIDA) to administer the grant. Fiscal Court will loan the entire amount to the RCIDA for the purpose of developing infrastructure within undeveloped industrial property. The funds will be repaid to Fiscal Court at 0% interest by the RCIDA as industrial sites are marketed. Upon repayment of loan funds, Fiscal Court will deposit repaid monies into a Revolving Fund Account to be utilized by the RCIDA under the terms and conditions of the NADBank grant. During fiscal year 2003, the Fiscal Court received funds of \$400,000, which were passed through to the RCIDA. The unexpended balance as of June 30, 2003, was \$0.

Note 7. Reserved General Fund Balance

The Russell County Fiscal Court was awarded a Phase II grant totaling \$20,000 from the Kentucky Flex-E Grant Program to provide funds for developing a strategic development plan. As of July 1, 2002 the reserve balance was \$10,000. The Fiscal Court expended \$0. The reserved general fund balance as of June 30, 2003, was \$30,000.

Note 8. Insurance

For the fiscal year ended June 30, 2003, Russell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



RUSSELL COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,490,849	\$ 1,753,873	\$ 263,024
Road and Bridge Fund	1,140,815	1,286,419	145,604
Jail Fund	87,585	87,968	383
Local Government Economic Assistance Fund	9,608	10,557	949
<u>Special Revenue Fund Type</u>			
Tourism Fund	90,100	111,931	21,831
Community Development Block Grant Fund	286,000	260,000	(26,000)
Totals	<u>\$ 3,104,957</u>	<u>\$ 3,510,748</u>	<u>\$ 405,791</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,104,957
Add: Budgeted Prior Year Surplus			599,713
Less: Other Financing Uses			<u>(120,726)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,583,944</u>

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SCHEDULE OF OPERATING REVENUE



RUSSELL COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE			Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	
Taxes	\$ 863,426	\$ 111,875	\$	\$ 975,301
In Lieu Tax Payments	104,594			104,594
Excess Fees	90,000			90,000
Intergovernmental Revenues	1,930,793	260,000		2,190,793
Charges for Services	18,185			18,185
Miscellaneous Revenues	112,186	13,701		125,887
Interest Earned	19,633	56	704	20,393
Total Operating Revenue	<u>\$ 3,138,817</u>	<u>\$ 385,632</u>	<u>\$ 704</u>	<u>3,525,153</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



RUSSELL COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 522,997	\$ 578,796	\$ (55,799)
Protection to Persons and Property	445,949	432,481	13,468
General Health and Sanitation	82,959	71,051	11,908
Recreation and Culture	16,294	16,294	
Roads	1,099,599	1,014,304	85,295
Debt Service	35,052	13,102	21,950
Administration	983,259	877,602	105,657
Total Operating Budget - General Fund Type	\$ 3,186,109	\$ 3,003,630	\$ 182,479
Other Financing Uses:			
Transfers to Airport Board Fund	9,000	9,000	
Transfers to Public Property Corporation Fund	66,050	66,050	
Capital Lease Agreements- Principal on Lease	45,676	45,676	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,306,835</u>	<u>\$ 3,124,356</u>	<u>\$ 182,479</u>
Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Recreation and Culture	111,835	111,835	
Capital Projects	286,000	260,000	26,000
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 397,835</u>	<u>\$ 371,835</u>	<u>\$ 26,000</u>

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SCHEDULE OF AIRPORT BOARD EXPENDITURES



RUSSELL COUNTY  
SCHEDULE OF AIRPORT BOARD EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	GOVERNMENTAL	
	FUND TYPE	
	Special Revenue	
	<u>Fund Type</u>	
	Airport	
	Board	
	<u>Fund</u>	
Utilities	\$	2,512
Equipment		9,878
Supplies		1,863
Maintenance Contract -Weather Service		2,600
Miscellaneous		37
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Total Expenditures	\$	<u><u>16,890</u></u>

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SCHEDULE OF RUSSELL COUNTY TOURIST COMMISSION  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE



SCHEDULE OF RUSSELL COUNTY TOURIST COMMISSION  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For The Year Ended December 31, 2002

Revenues:

Motel taxes and penalties	\$ 114,375
Conference room rental	1,388
Matching funds	2,741
Chamber of Commerce	18,975
Russell/Pulaski Coop	4,265
Hospitality training	1,080
50 Year anniversary celebration	12,172
Miscellaneous	1,374
	<hr/>

Total Revenues	<hr/> \$ 156,370 <hr/>
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Expenditures:

Salaries and wages	\$ 55,884
Payroll taxes	3,950
Retirement contribution	2,897
Tourism promotion	3,490
Travel shows - Booth and furniture	3,039
Travel shows - Workers	2,396
Travel	3,365
Advertising	17,488
Postage	4,280
Shipping and freight	265
Utilities	2,263
Insurance	4,015
Telephone	2,621
Copier lease	450
Officer supplies	2,179
Internet	650
Cleaning	2,928
Rental	824
Donations	400
Dues and subscriptions	1,145
Repairs and maintenance	402
Professional services	2,575
Hospitality training	1,500
Merchandise	230
50 Year anniversary celebration	10,034
Miscellaneous	371
	<hr/>

Total Expenditures	<hr/> \$ 129,641 <hr/>
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SCHEDULE OF RUSSELL COUNTY TOURIST COMMISSION  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
For The Year Ended December 31, 2002  
(Continued)

Excess of Revenues Over Expenditures	<u>\$ 26,729</u>
Other Financing Sources (Uses):	
Interest income	\$ 311
Interest expense	(8,654)
Note payments	(10,541)
Equipment and furniture purchases	<u>(2,710)</u>
Total Other Financing Uses	<u>\$ (21,594)</u>
Excess of Revenues and Other Sources Over Expenditures	\$ 5,135
Fund Balance, January 1, 2002	<u>37,695</u>
Fund Balance, December 31, 2002	<u><u>\$ 42,830</u></u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Ronnie E. McFall, Russell County Judge/Executive  
Members of the Russell County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of Financial**  
**Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Russell County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 27, 2004 in which we issued a qualified opinion on the financial statements. We did not audit the financial statements of the Russell County Tourism Commission. Other auditors whose report has been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Russell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

- Receipts And Disbursements Should Be Accurately Posted

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Russell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 27, 2004

COMMENT AND RECOMMENDATION



RUSSELL COUNTY  
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2003

Receipts And Disbursements Should Be Accurately Posted

KRS 68.020 states the treasurer “shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounting prescribed by the state local finance officer.” The County’s receipts and disbursements ledgers were not accurately posted resulting in an understatement of receipts by \$203,054 and \$378,767 in disbursements. The financial statements were adjusted to reflect these amounts. We recommend the county comply with KRS 68.020 to ensure financial statements are accurately reported.

*County Judge/Executive Ronnie E. McFall’s Response:*

*This has been brought to our attention and we have since corrected the problems.*

PRIOR YEAR FINDINGS

In the prior year audit report, we made the following comment and recommendation:

- Fiscal Court Should Amend Budget For Expenditure of Unanticipated Receipts

This finding has been resolved.

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

RUSSELL COUNTY FISCAL COURT

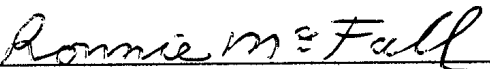
For The Fiscal Year Ended  
June 30, 2003




**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**RUSSELL COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2003**

The Russell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Ronnie E. McFall  
County Judge/Executive

  
\_\_\_\_\_  
Barbara Wilson  
County Treasurer



